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HOW DOES FINANCIAL INNOVATION EMERGE IN RESOURCE-CONSTRAINED ECONOMIES? (SUMMARY)

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HOW DOES FINANCIAL INNOVATION EMERGE IN RESOURCE-CONSTRAINED ECONOMIES?

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Principal Topic

The characteristics of product innovation in emerging economies (EEs) are becoming increasingly well defined. However, the process by which such innovation develops remains poorly understood. EE innovators face a constraint shared with innovators elsewhere: resource scarcity. In response to that challenge, innovators can respond by employing two sets of strategies: causation and effectuation. These strategies may be utilized separately or together and can also be refashioned to fit EE institutional contexts. This paper elaborates this process and asks: how do EE innovators recombine and refashion causal and effectual mechanisms?

Method

We employ an alternate templates strategy to compare the efficacy and possible recombinations of effectuation and causation in describing the financial innovation process in resource-constrained economies. We identified six innovators in the financial services sector in the course of other research and selected these as cases due to the richness of detail in data. These cases were from South Africa, Ethiopia, Ghana and Botswana. The innovations represented various levels and types of innovativeness and institutional settings. Data were collected during the period 2007-2011 from three sources: semi-structured interviews, archival documents, and direct observation. Once data were collected, we developed templates for effectuation and causation and coded each case to identify the extent to which each case displayed attributes of each model. These templates were used to conduct within- and cross-case analyses to find patterns and themes in the data.

Results and Implications

The data show that financial innovators employ a combination of causal and effectual mechanisms. In innovating effectually, these actors overemphasize pre-commitment and underemphasize flexibility. The specific mix of causal and effectual mechanisms depends on both industry and institutional contexts. The financial innovation process in resource-constrained environments begins with the choice to mix causal and effectual mechanisms, from which incremental innovation and firm growth then follow. While confirming earlier studies that find the complementarity of causal and effectual mechanisms, these findings challenge the relative importance of the underlying effectual sub-mechanisms, extend effectuation into the product innovation literature, and introduce non-Western data into the conversation.

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